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TAX ADVISORY

President Obama's Proposed Budget Includes Tax Changes for Businesses, Individuals

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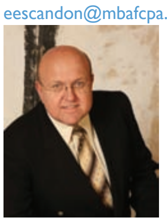
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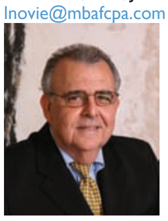
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Dear clients and friends:

President Obama on February 1 issued his proposed budget for Fiscal Year 2011, which begins on October 1, 2010. In a **news release** the U.S. Department of the Treasury has a summary of the budget's proposed tax changes, including those for businesses.

The Treasury Department also released its **"Green Book"**, with explanations of various proposals that would either raise taxes, reduce taxes or extend recent years' tax breaks for businesses and high-income individuals. Details of business-related proposals are on pages 23 through 74.

The president's budget proposals include tax incentives for businesses to hire new employees and the elimination of capital gains taxes for investments in qualified small businesses. The budget also would extend through 2010 the expanded expense deductions on purchases of new and used equipment and the expanded bonus depreciation on new equipment that were introduced in the **Emergency Economic Stabilization Act of 2008**.

In addition, the president is proposing a repeal of the LIFO (Last In, First Out) accounting method for inventories that is used by many auto dealerships and other businesses beginning after 2011.

The president's proposal is the first step of the federal budget process. After the House and then the Senate approve a budget bill they will send it to the president who can sign or veto it.

Business-related tax provisions of the proposed budget include:

- Establishing a tax credit of $5,000 for each new worker added in 2010, plus a reimbursement for payroll taxes on wage increases.
- A zero capital gains tax on qualified small business stock held for at least five years, effective for stock acquired after February 17, 2009.
- Businesses that use LIFO would be required to write up their beginning LIFO inventory to FIFO (First In, First Out) value in the first tax year beginning after 2011. This one-time increase in gross income would be taken into account ratably over ten years, starting with the first tax year beginning after 2011.
- The first-year 50 percent bonus depreciation for qualified property placed in service would be extended into 2010.
- The removal of tax preferences on oil, gas and coal companies by removing deductions for intangible drilling costs, percentage depletion and several other preferences.

International tax provisions of the proposed budget include:

- Taxing in the United States of excessive profits shifted offshore using transfers of intangibles.
- A series of proposals to reduce tax evasion through the use of offshore accounts and entities.

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Proposed changes for individuals include:

- Reinstating after 2010 the 36 percent tax rate for married couples filing joint returns with taxable incomes above $250,000 and single taxpayers with taxable incomes above $200,000.
- The 28 percent bracket would be expanded so that taxpayers earning less than the $250,000/$200,000 amounts would not see their taxes rise as a result of the increased tax rate brackets.
- Reinstating beginning in 2011, the 39.6 percent tax rate for those with taxable income over $373,650 before any inflation adjustment.
- Beginning in 2011, a 20 percent tax rate would apply to long-term capital gains and qualified dividends of married taxpayers filing jointly with taxable income over $250,000 and to single taxpayers with taxable income over $200,000. Taxpayers below these income levels would be subject to the rates that currently apply (i.e. 0 percent or 15 percent) to long-term capital gains and qualified dividends.

If you would like additional information on the proposed tax changes in President Obama's budget, do not hesitate to contact us at (305) 373-5500.

Sincerely,

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